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6/24/98

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Approved For Release 2003/08/08 : CIA-RDP79R00890A000600060002-3

- I. In 3 October presidential election, with count almost complete, clear that Juscelino Kubitschek has won presidency and Joao Goulart the vice-presidency by small pluralities--Kubitschek's margin slightly greater than Goulart's.
- A. Both were candidates of coalition of Brazil's leading party--the Social Democratic Party (PSD)--and the Brazilian Labor Party (PTB).
- B. Were also supported by two lesser parties, plus the well-organized but outlawed (since '47) 120,000 strong Communist Party (estimated able to deliver 4-500,000 votes).
1. Kubitschek, but not Goulart, also supported by right-wing Republican Party.

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- A. Supporters of Tavora have been reported planning such court challenge.
- B. However, Chief Justice of Superior Electoral Court--official vote counter--stated on 20 October, "election can only be challenged if number of votes mentioned in charges of irregularities corresponds to number by which a candidate has won."

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C.

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chances of such maneuver were greatly reduced, at least as regards Kubitschek.

III. Prospects of coup by military to prevent inauguration of pair (in Jan '56), once deemed probable, now also waning.

- A. Strong, long-standing opposition of military to Kubitschek and Goulart is based on ties of both to late President Vargas and his supporters.

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record as Vargas' Minister of Labor (June '53 to Feb '54, when ousted by military pressure) during which time he:

1. Cooperated with Communists to foster development of labor as a political force.
  2. Sponsored (1954) a 10% hike in minimum wage, which meant that common laborer was paid more than an army master sergeant.
- C. Most important of coup advocates are the so-called "colonels' group," lower-echelon officers who have both personal and patriotic incentives, but weak leadership.

A. These elements include:

1. Leading figures of losing political parties;
2. Incumbent president Cafe Filho;
3. Most top military figures and some junior officers.

B. It is believed that, although the possibility of a military coup cannot be ruled out completely, the military leaders will be reluctant to abandon their traditional role of guardians of constitutional order and others, who favor a coup, lack strong leadership.

C. It is believed, therefore, that Kubitschek and Goulart will almost certainly take office as scheduled.

the armed forces will watch the new administration very closely for any missteps that threaten national stability.

V. Besides this threat, Kubitschek's administration faces several pressing problems: the chief ones--inflation and foreign exchange shortages, the crucial petroleum question, and, finally, the new administration's relations with the splintered Brazilian Congress.

A. As to inflation, the cost of living in Rio has more than trebled since 1948.

1. Brazilian inflation has been fostered since 1947 by a combination of government deficits and expansion of credit.

2. Lag of wages behind prices during this time was largely met in July '54 when minimum wage was doubled.

3. Since then, however, labor's gain largely erased by further price rises, and workers restive.

B. As to foreign exchange, Brazil's economic growth depends upon its capacity to import necessary capital goods and raw materials, and this capacity is limited by the volume of Brazilian exports.

1. Coffee makes up about two thirds of exports; today's high prices for coffee unlikely to continue.
2. Also, to allow needed imports to be purchased cheaply, official rate of the cruzeiro has been maintained at artificially high level.
3. This overvaluation of the cruzeiro has weakened competitive position of other Brazilian exports.

4. Net deficit on investment account has also added to Brazil's foreign exchange problem--in 1954, as follows:

<u>RECEIPTS</u>		<u>PAYMENTS</u>	
New Investment	\$69 million	Investment Withdrawn	\$76
Remittances Received	7 million	Remittances Sent	141
	\$71 million		\$217

Net deficit on investment account:  
\$141 million.

5. In 1954, total foreign exchange deficit was \$350 million.  
Cumulative foreign exchange obligation now \$2 billion.

C. Petroleum problem another open sore in Brazilian economy.

1. '54 consumption averaged 160,000 barrels per day (an 84% increase over '50).



2. Brazil's own domestic output meets less than 2% of demand.
3. Oil imports in '54 cost about \$250 million (one-third of Brazil's dollar earnings).

D. At least \$1 billion would be needed to develop Brazil's potential petroleum resources to meet present demand.

1. Of this, over \$700 million would have to be spent abroad for equipment and technical labor.
2. Brazil alone cannot afford such an expense.
3. Even if foreign capital participated, volume output would probably not be reached for another five-ten years.

E. At present, foreign petroleum companies in Brazil are restricted to distribution and marketing, while petroleum exploration and development legal monopoly of PETROBRAS (established by 1953 law).

This is a government (majority) - private capital (minority) corporation, in which native Brazilians alone may invest.

2. Whole question of exploitation Brazil's oil resources is hot political issue.

F. Final Kubitschek problem involves relations with Congress, from which body no Brazilian president has had dependable support in past 25 years.

1. On paper, total of five parties nominally supporting Kubitschek for presidency have 44 of 63 Senate seats, 201 of 326 in Chamber.
2. However, this does not presage solid support in Congress, because, even in presidential campaign, "supporting" parties were divided.
3. Kubitschek's primary support (PSD) was about 85% for him, while Goulart's party (PTB) was far more badly divided.

will stay until '58. Kubitschek's major congressional problem may arise over status of Goulart.

1. If Kubitschek gives Goulart free hand to cooperate with Communists in building up political-labor movement, he courts opposition of anti-Goulart elements in Congress, as well as military coup.
2. If Kubitschek curbs Goulart, he will lose support of pro-Goulart elements in Congress.
3. Kubitschek, a shrewd politician, should be able to assess whether pro- or anti-Goulart elements are strongest and behave accordingly.

In our belief, antis outweigh pros.

VI. Based on what we know of Kubitschek, we expect that he will follow these policies:

A. On the economic scene, Kubitschek's long-range solution to problem of inflation likely to be stepped-up expansion of production.

1. His governorship of Minas Gerais (1951-55) was marked by extensive construction of power facilities, highways in effort to stimulate industrial growth there.
2. One slogan during campaign for presidency: "Power, transportation and food."
3. In 21 Oct interview with US newsmen, he mapped out broad program of building roads, improving Brazil's inadequate railway system, producing more electricity, steel, aluminum and fertilizer, added that program will require \$500 million in equipment over the next five years, mostly from US.

4. Since Kubitschek is opposed to policy of austerity to help finance economic expansion, inflation will almost certainly continue, and balance of payments problem not likely to improve substantially in next few years.

**B. Kubitschek wants US help.**

1. [His version] he was confident that if Brazil presents to the United States a realistic explanation of our problems and the solutions we plan, we will get the necessary financial aid."

2. Took similar line to Ambassador Dunn on 18 October, adding that US was only country which could be of assistance to him in his economic plans.

**C. Kubitschek will almost certainly attempt to continue Brazil's traditionally close ties with the US.**

1. He will probably cooperate with the US on major international political issues in the UN and the OAS.
2. In return, he will expect US assistance for his development program.

D. He will try to solve petroleum dilemma. Kubitschek has thusfar handled ticklish Petrobras issue very cautiously because:

1. Both Communists and conservative nationalists, who supported him in presidential campaign, are strongly opposed to any foreign participation in Brazil's petroleum development.
2. Communist-originated slogan, "the oil is ours," is popular throughout Brazil.
3. But Kubitschek statements have implied he will use other means to develop Brazil's oil if Petrobras fails to prove itself in year's time.

4. To avoid political risk of attempting repeal of Petrobras law, he may instead seek to by-pass it.

E. Because economic problems outshadow all others, new government's actions on Communist problem likely receive low priority.

1. Communists, with possible Soultart assistance, will seek to increase influence in organized labor and bureaucracy.
2. Kubitschek will probably resist these efforts, both as matter of expediency in his tense relations with the military, and as a matter of possible personal principle.
3. Told Dunn on 18 Oct that, despite Communists' support during campaign, he has no commitments to them.

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4. Further stated that, as congress-  
man from Minas Gerais, had voted  
to outlaw Commies in '47 and still  
felt same way.
5. Pointed out he was "practicing  
Catholic," which entails anti-  
Communism.
6. Concluded with statement of his  
belief in private enterprise.

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